Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Farm Financial Situation

November 1998

Economic and Policy Analysis Directorate

Introduction

Farm income measures are a key indicator of the financial well-being of farm families and farm businesses. However, care must be taken when interpreting these measures as there can be significant volatility in both income forecasts and final income estimates. A number of additional indicators of financial well-being help to provide a more complete picture of the financial situation on Canadian farms.

An overview of the farm financial situation in Canada, as of November 1998, follows.

Farm Income

Background

These farm income forecasts were prepared by Agriculture and Agri-Food Canada (AAFC) in conjunction with provincial Departments of Agriculture, October 30,1998.

Farm income forecasts are subject to change as market conditions or costs change.

Farm income forecasts do not take into account the ability of individual farmers to diversify or to make other adjustments to respond to changing commodity prices or input costs.

Definitions

Net Cash Income (NCI) = *market receipts + direct payments - operating expenses*

NCI is a measure of the cash available to producers from the farming business for living expenses, principal repayment and reinvestment in the farm.

Realized Net Income (RNI) = *net cash income + income in kind - depreciation*

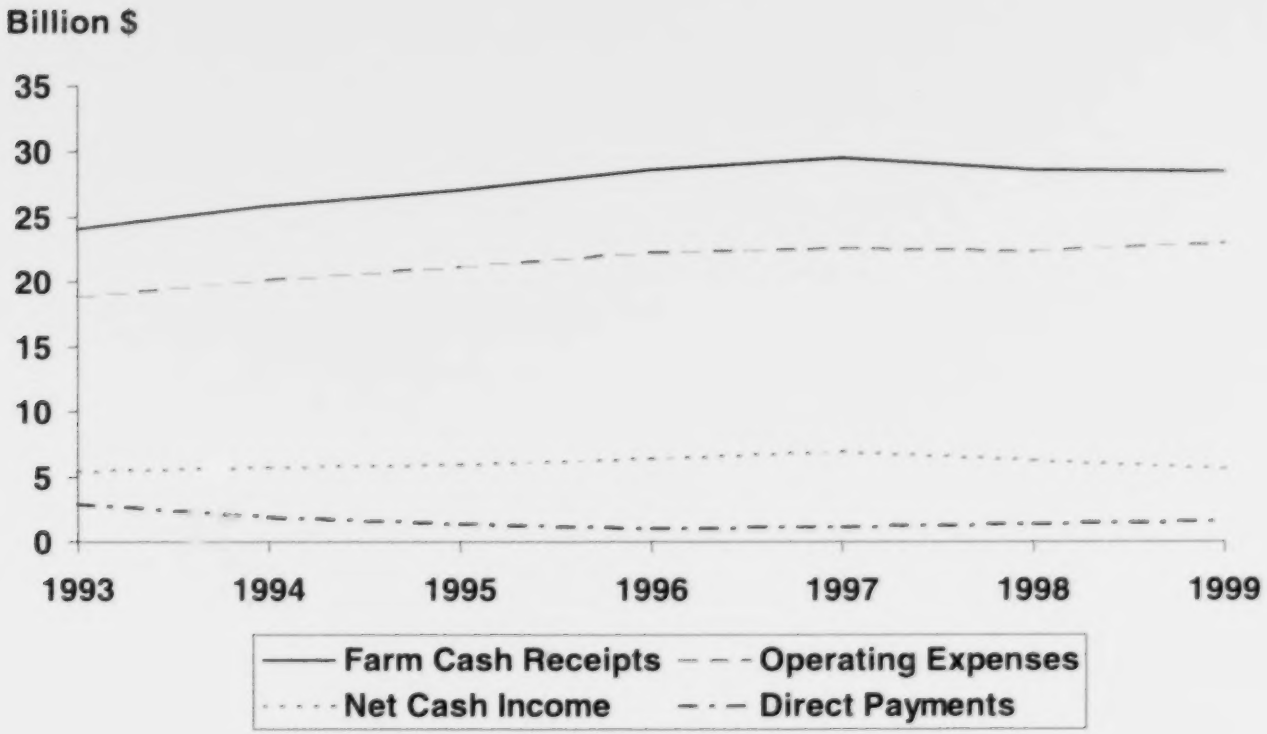
Depreciation is a non-cash cost reflecting an allowance for machinery, buildings and equipment which must be replaced over time. RNI is a measure of the profitability of the farming business.

Total Net Income (TNI) = *realized net income* + or - *value of change in on-farm inventories.*

A commodity produced in one year can be sold in another year; accounting for the value of change in on-farm inventories provides an approximation of accrued net farm income.

Note: A minor change in cash receipts or expenses will have a significant impact on net income levels. For example, a 2% increase in farm cash receipts of $30 billion would result in a 30% increase in RNI of $2 billion.

Major Components of Farm Income, Canada, 1993-1999



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1998 and 1999 forecast data. Statistics Canada for historical data.

Net cash income in 1998 is expected to be 3% above the 1993-97 five-year average due to crop and livestock receipts growing more than operating expenses. In 1999, net cash income is projected to decline to a level 8% lower than the 1993-97 five-year average.

Operating expenses in 1998 and 1999 are forecast to be 7% and 10% above the 1993-97 five-year average, respectively. The 1999 level reflects higher interest charges and the impact of the low Canadian dollar.

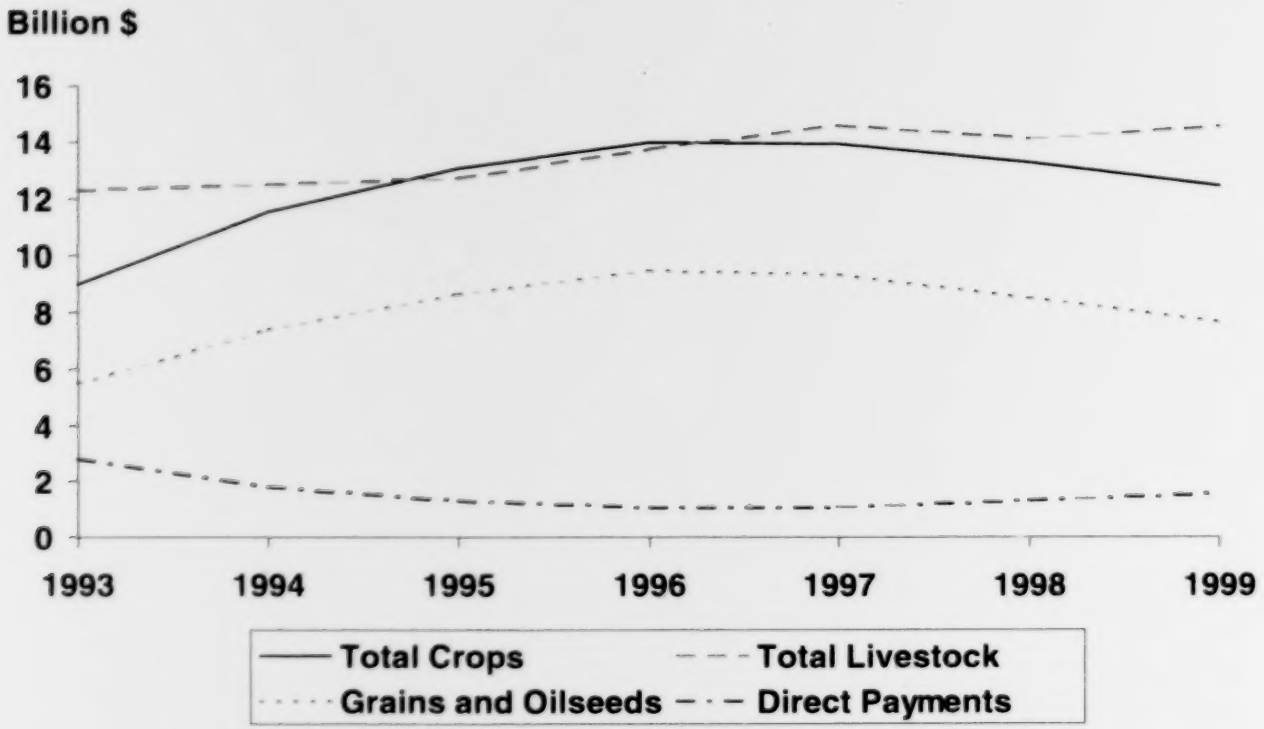
Direct payments by governments are expected to total $1.3 billion in 1998 which is 18% below the 1993-97 average. They are forecast to increase to $1.6 billion in 1999 which will be just 3% below the 1993-97 average.

Longer-term forecasts are for increased demand, higher prices and improved farm income in 2000 and beyond.

Net cash income is expected to drop from 3% above to 8% below the 1993-97 five-year average between 1998 and 1999.

In the longer term, income projections show strong reliance on market performance, with lower but stable government support.

Major Components of Farm Cash Receipts, Canada, 1993-1999



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1998 and 1999 forecast data. Statistics Canada for historical data.

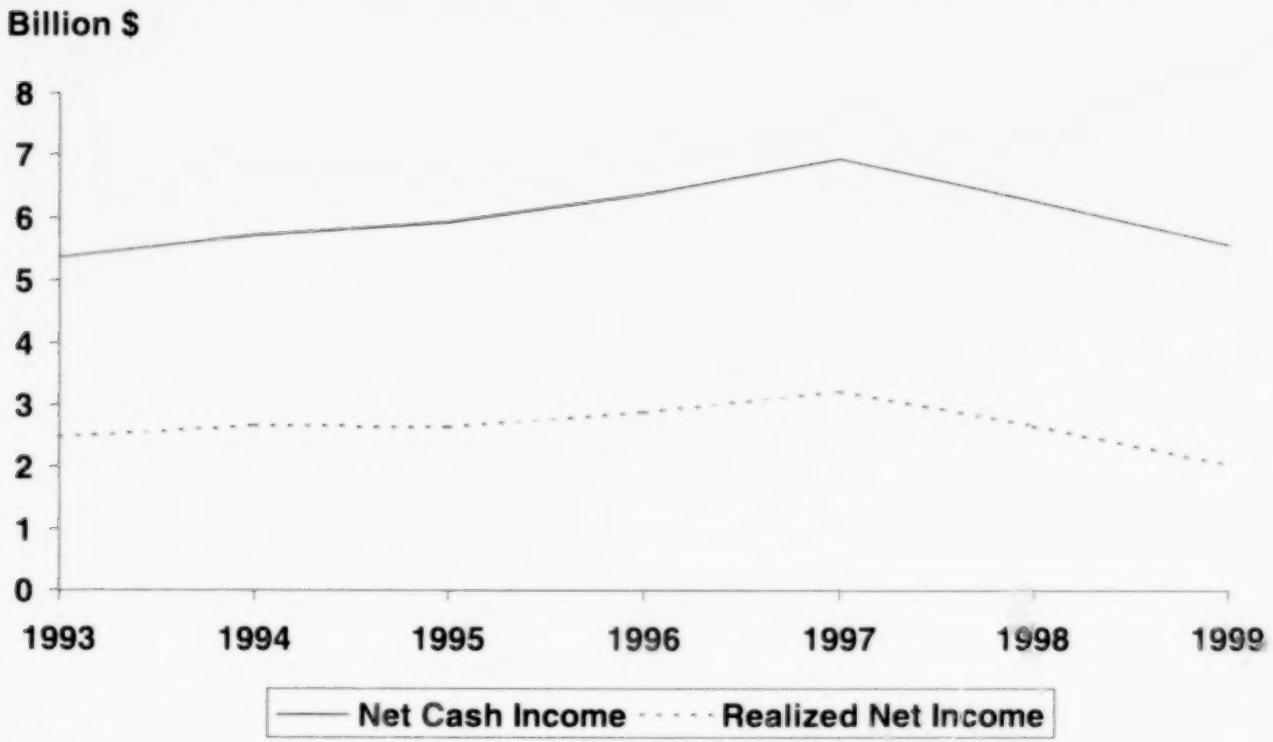
Crop receipts are expected to be 8% above the 1993-97 five-year average in 1998 at $13.2 billion. In 1999, grain prices are expected to improve slightly, however, **lower net deferments** are forecast to bring total crop receipts down to a level 1% above the 1993-97 five-year average.

Deferments are crucial to understanding the forecasts for 1999. Deferments are defined as the postponement of grain and oilseed cheques to the taxation year following the actual delivery of physical product. The 1998 deferments are expected to be low as farmers choose to get paid now rather than later, given that 1998 is likely to be a low income year. The 1999 "liquidation" cheques that correspond to these 1998 deferments are therefore expected to be low, pulling down cash receipts in 1999.

Livestock receipts are forecast to be 7% and 11% above the 1993-97 average in 1998 and 1999, respectively. Livestock receipts in 1998 are under short-term pressure due to weak hog prices but are forecast to strengthen in 1999 due to increasing hog production and rising prices.

Overall, receipts in 1998 and 1999, excluding government payments, are forecast to be 8% and 6% above the 1993-97 average, respectively.

Net Farm Income, Canada, 1993-1999



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1998 and 1999 forecast data. Statistics Canada for historical data.

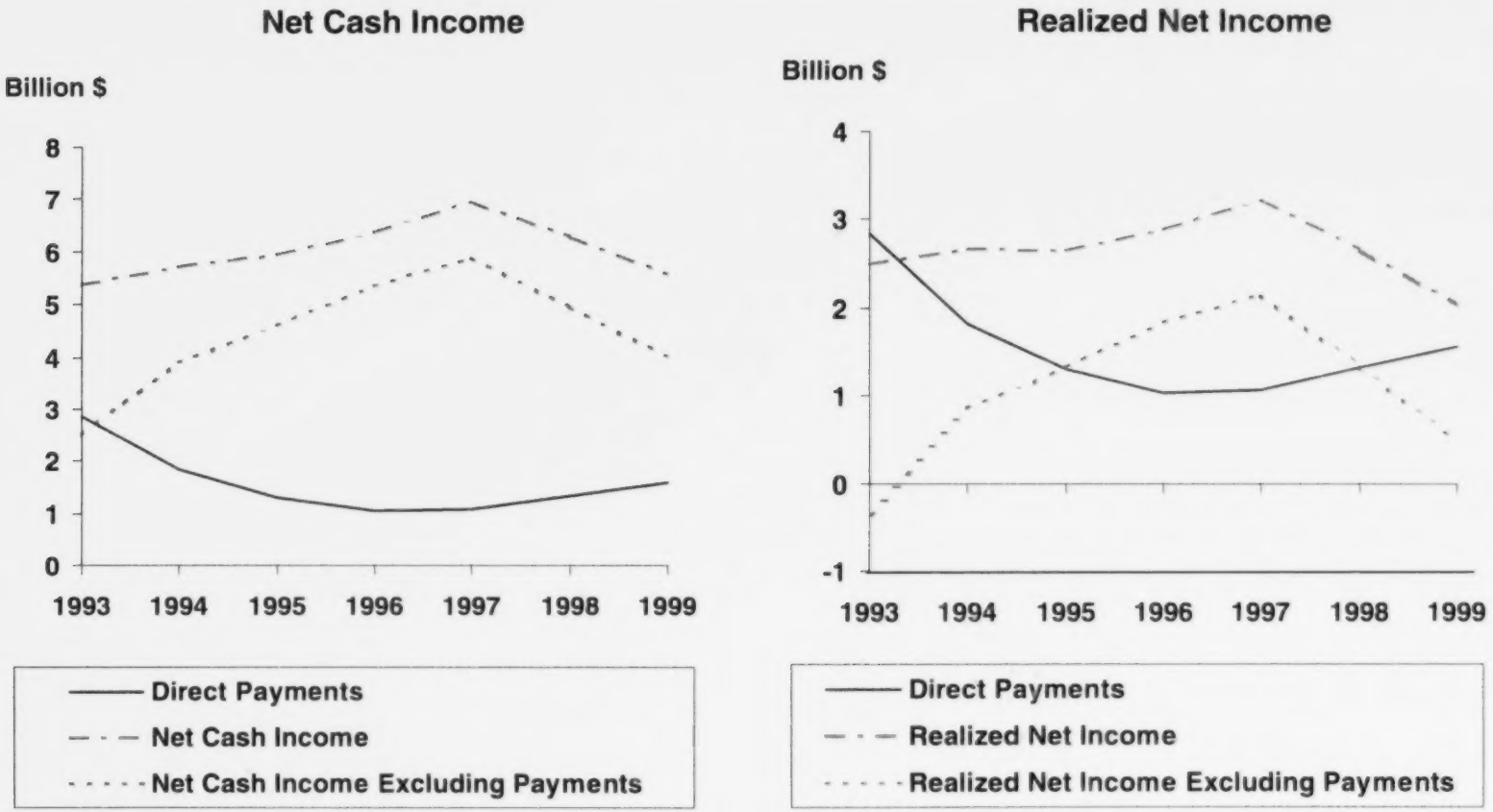
Net cash income in 1998 is expected to be 3% above the 1993-97 five-year average due to crop and livestock receipts rising more than expenses. In 1999, net cash income is forecast to be 8% below the 1993-97 five-year average mainly due to higher operating expenses.

Depreciation is an important component of realized net income. Generally, when commodity prices are low and net cash income declines, farmers invest less on their farms and the value of existing assets may be priced at a lower level. This is reflected in the year over year changes in depreciation in the forecast period. However, depreciation is up 9% in 1998 and 7% in 1999, relative to the 1993-97 five-year average.

Realized net income in 1998 and 1999 is projected to be 4% and 26% below the 1993-97 five-year average, respectively.

Overall, unless market conditions change, farmers are projected to face increasing income pressure in 1999.

Net Farm Income and Government Payments, Canada, 1993 to 1999



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1998 and 1999 forecast data.
Statistics Canada for historical data.

Government payments exceeded realized net income in the early 1990s, and averaged about $3 billion.

Since 1997, government payments have increased significantly because of higher payments from crop insurance, NISA and stabilization programs in Quebec. At the same time, both net cash income and realized net income, excluding government payments have decreased.

The nature of government support has also changed. Because farm incomes have been strong in recent years, **NISA accounts** have grown to about $2.5 billion. While this money is available to farmers, it is not reflected in farm income estimates.

In addition to increasing government payments in 1998 and 1999, significant NISA balances are also available to farmers.

Farm Income, Canada and Provinces, 1998 and 1999

1998 ($ million)	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	CANADA
TOTAL CROPS	18	163	121	143	1,136	2,996	1,540	3,976	2,449	708	13,248
TOTAL LIVESTOCK	56	114	246	186	3,233	3,568	1,101	1,063	3,565	944	14,079
TOTAL MARKET RECEIPTS	74	277	367	329	4,369	6,564	2,641	5,039	6,013	1,651	27,327
TOTAL DIRECT PAYMENTS	0	8	5	5	457	169	75	311	271	27	1,330
TOTAL CASH RECEIPTS	74	285	372	334	4,827	6,733	2,717	5,350	6,284	1,678	28,657
TOTAL NET OPERATING EXP.	57	234	286	264	3,570	5,293	2,232	4,302	4,761	1,384	22,384
NET CASH INCOME	17	50	86	70	1,257	1,439	485	1,048	1,523	295	6,273
REALIZED NET INCOME	12	23	47	39	877	625	132	189	597	124	2,669

1999 ($ million)	NFLD	PEI	NS	NB	QUE	ONT	MAN	SASK	ALTA	BC	CANADA
TOTAL CROPS	19	166	132	129	1,136	2,905	1,434	3,455	2,342	733	12,451
TOTAL LIVESTOCK	58	120	254	195	3,414	3,678	1,081	1,108	3,640	981	14,532
TOTAL MARKET RECEIPTS	77	286	386	325	4,549	6,584	2,515	4,563	5,982	1,714	26,983
TOTAL DIRECT PAYMENTS	0	6	5	6	442	164	169	434	319	31	1,576
TOTAL CASH RECEIPTS	77	292	391	330	4,991	6,748	2,685	4,996	6,301	1,745	28,559
TOTAL NET OPERATING EXP.	59	239	294	272	3,683	5,433	2,283	4,359	4,941	1,419	22,982
NET CASH INCOME	18	53	96	59	1,308	1,315	402	638	1,359	326	5,577
REALIZED NET INCOME	13	27	56	28	925	514	59	-170	448	150	2,053

Source: Agriculture and Agri-Food Canada, Policy Branch.

Provincially, net cash income and realized net income in 1998 are expected to be up in Eastern Canada, relatively stable in Alberta and B.C. and down severely in P.E.I., Manitoba and Saskatchewan.

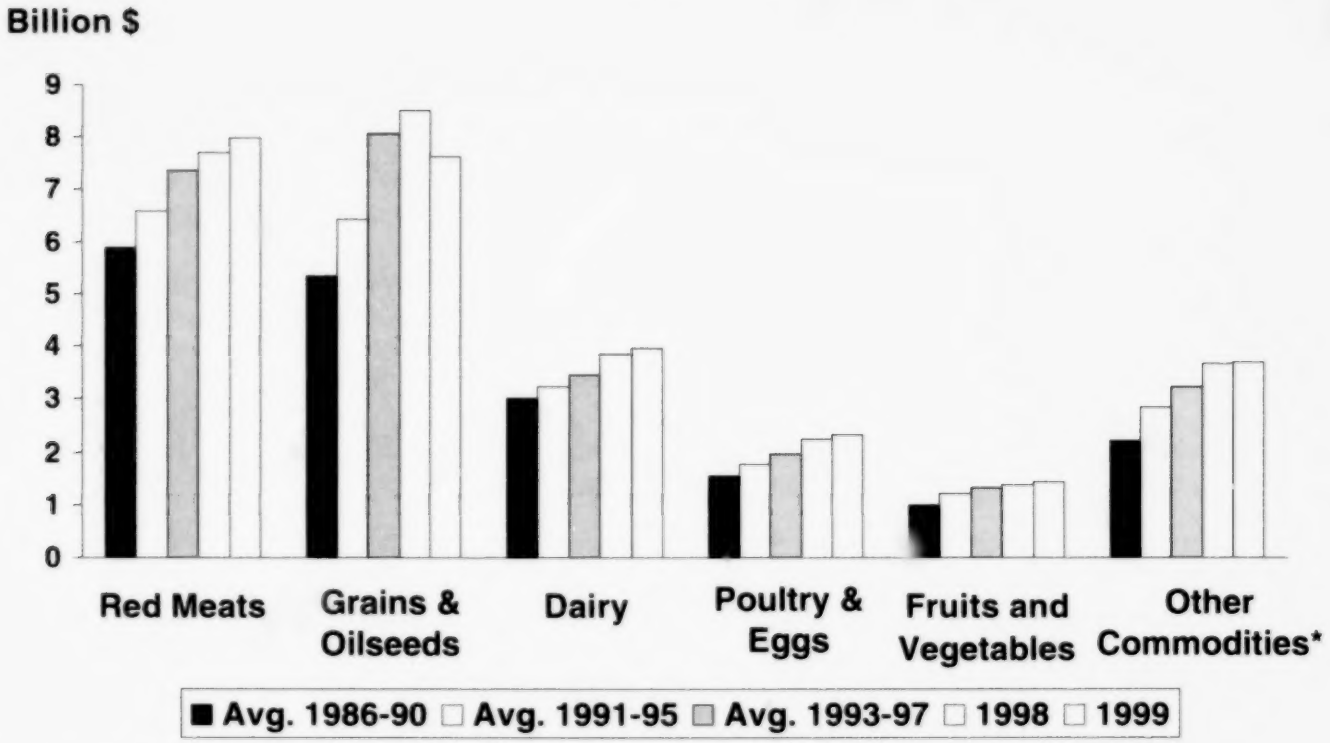
The non-prairie provinces in 1998 generally benefited from more diversified product mixes, which mitigated the exposure to weak cereal and hog prices.

Manitoba and Saskatchewan are most affected by low hog and wheat prices in 1998. As cattle prices have not been as severely affected as hog prices, Alberta is not as severely impacted.

Lower net deferments of receipts to the next taxation year is the main contributing factor for Manitoba's realized net income falling in 1999 to 75% below the 1993-97 five-year average and for Saskatchewan dropping by as much as 129%. Alberta is less severely affected with realized net income expected to drop to 18% below the 1993-97 five-year average in 1999.

Overall, P.E.I., Manitoba and Saskatchewan are the most severely affected provinces in both forecast years.

Canada
Farm Cash Receipts by Commodity Group

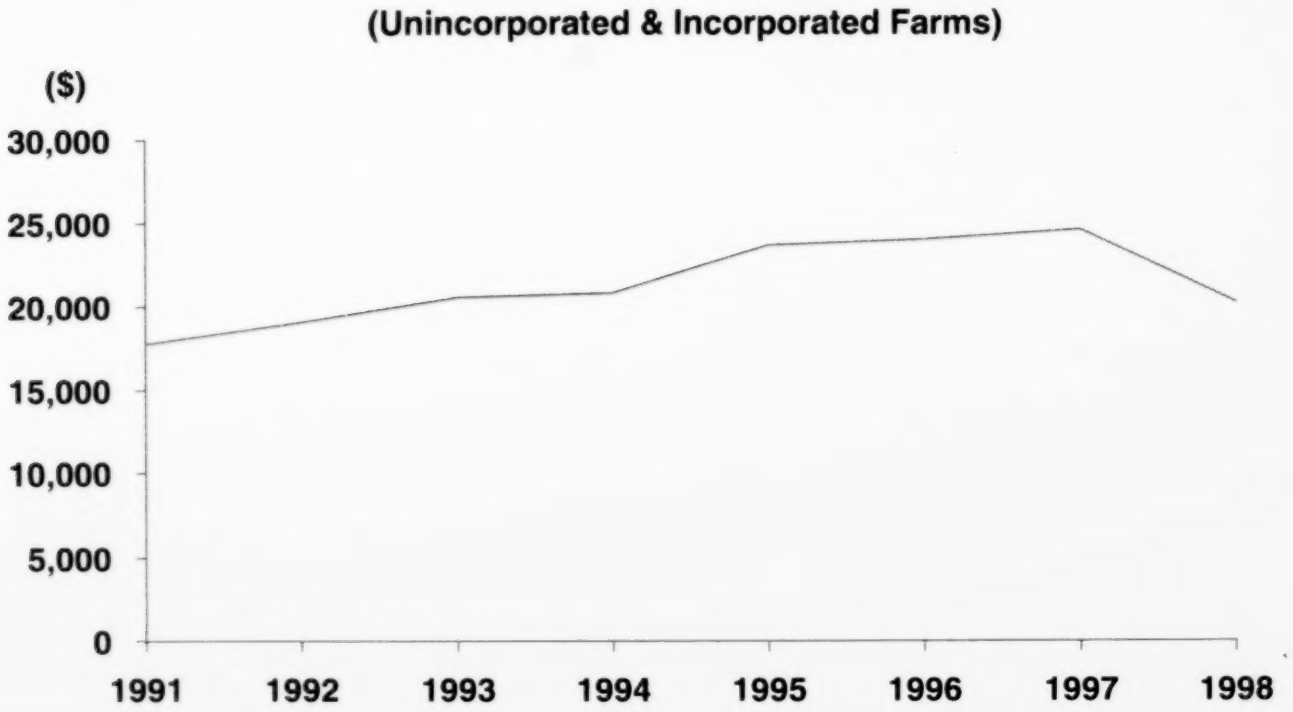


*Includes: Potatoes, Special Crops, Forage, etc.

Source: Statistics Canada, Agriculture Division for historical data.
Agriculture and Agri-Food Canada for 1998 and 1999 forecast data.

- In 1998, receipts are expected to be up from the 1993-97 five-year average for all commodity groups.
- Grains and oilseeds is the only group forecast to decline in 1999 relative to the 1993-97 five-year average.

Average Net Operating Income per Farm Canada, 1991 to 1998



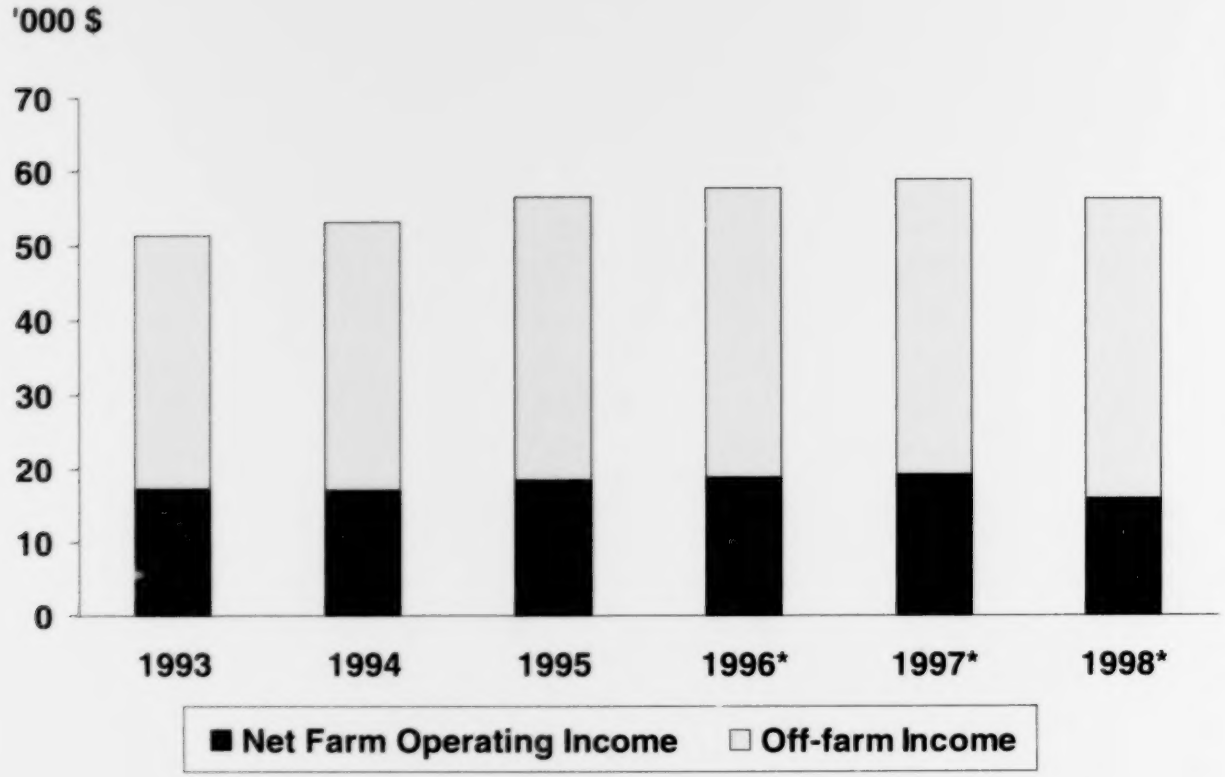
1997 and 1998 are estimates

Source: Statistics Canada, Whole Farm Database

- Net operating income is equal to total operating revenues minus total operating expenses, before depreciation. Inter-farm sales are included in revenues as are agriculture payments and subsidies, excluding NISA.
- On a per farm basis, average net operating income increased every year for the 1991 to 1997 period, primarily due to improving crop prices and other favourable agricultural market conditions.
- In 1997, average net operating income increases further to $24,577 per farm in response to higher operating revenues and stable expenses. In 1998, however, it is expected to decline approximately 11% (relative to the previous 5-year average).

Farm Family Income

Total Farm Family Income, 1993 to 1998



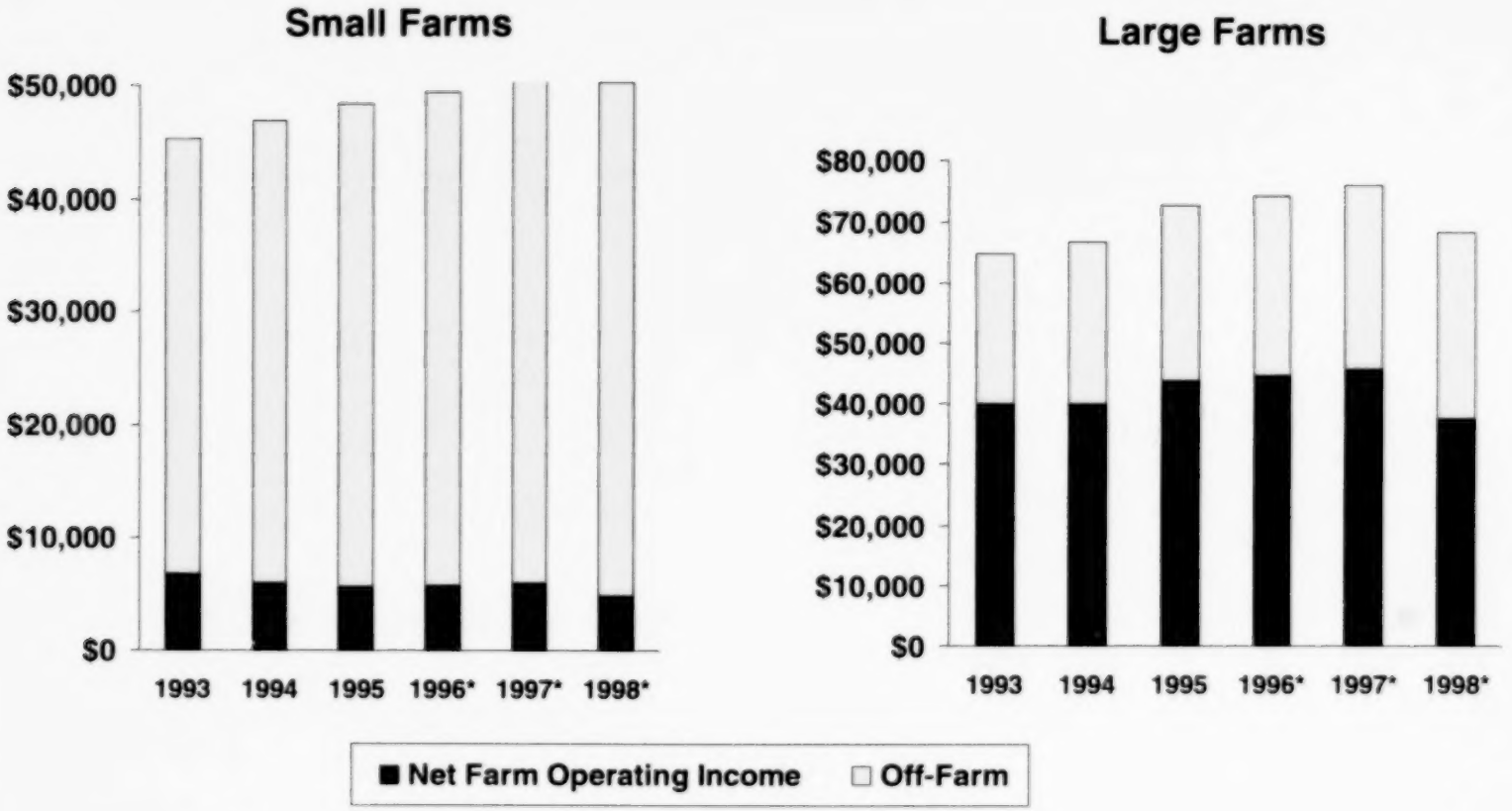
*Estimated.
Source: Statistics Canada, Whole Farm Database

- Total farm family income is composed of net operating income (before depreciation) and off-farm income for members of the farm family. Off-farm income includes wages and salaries and net self-employment income from non-farm sources as well as income from investment, pensions, government social transfers and NISA withdrawals.

- Farm family income has steadily increased since 1993 reaching an estimated average total income of $58,925 in 1997. In 1998, total income is expected to fall but this decrease is expected to be less than five percent.

- Farm families have benefitted not only from improved farm incomes up to 1997, but also from improved off-farm incomes, particularly wages and salaries and government social transfers over the period.

Average Family Income per Farm for Small and Large Farms

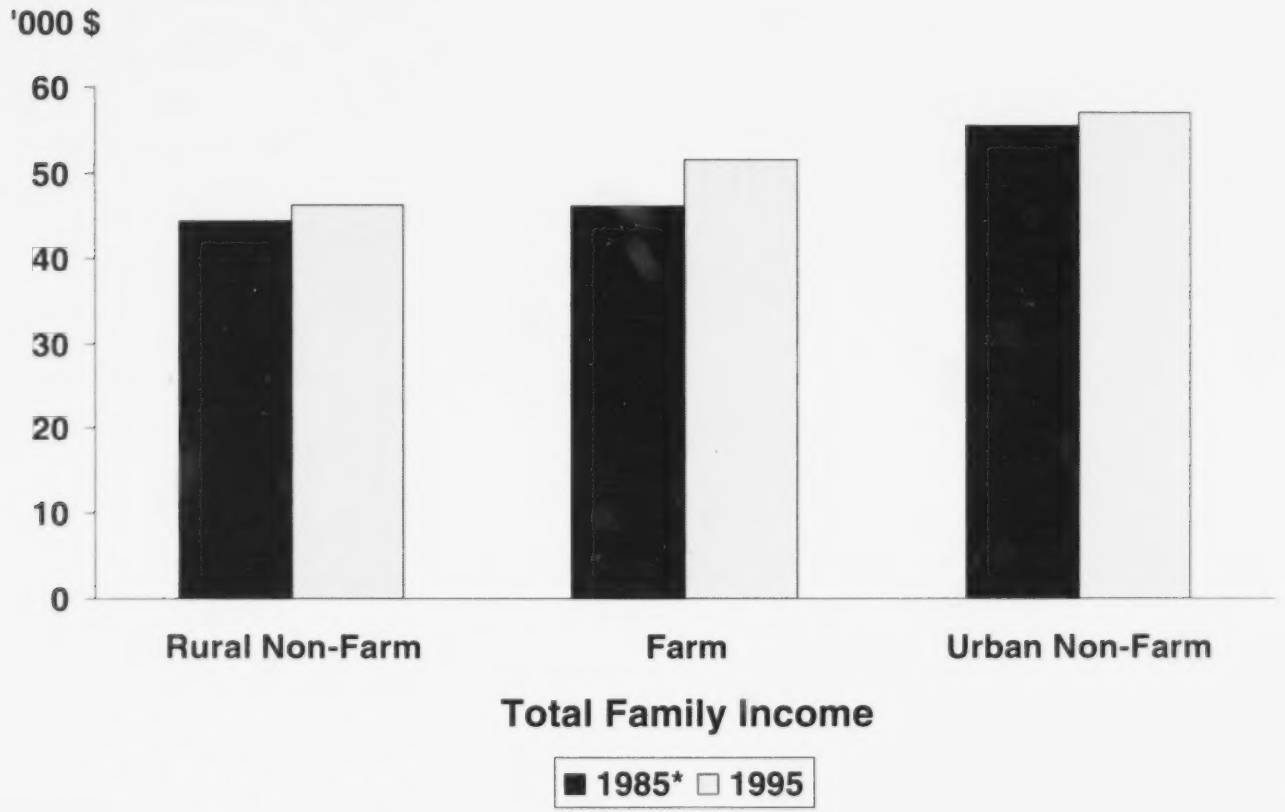


*Estimated.

Source: Statistics Canada, Whole Farm Database

- Small farms are those farms with gross revenues under $100,000. In 1995, approximately two-thirds of farm families operated small farms.
- The estimated total family income for small farms in 1998 is expected to change little from 1996 and 1997. For families operating large farms, it is expected to decrease in 1998 relative to the previous five years.
- In 1998, the average family on a small farm will earn approximately 10% of total family income from farming while families on large farms will earn approximately 55% of their income from the farm.

Real Income Levels of Rural, Farm and Urban Families, 1985 and 1995



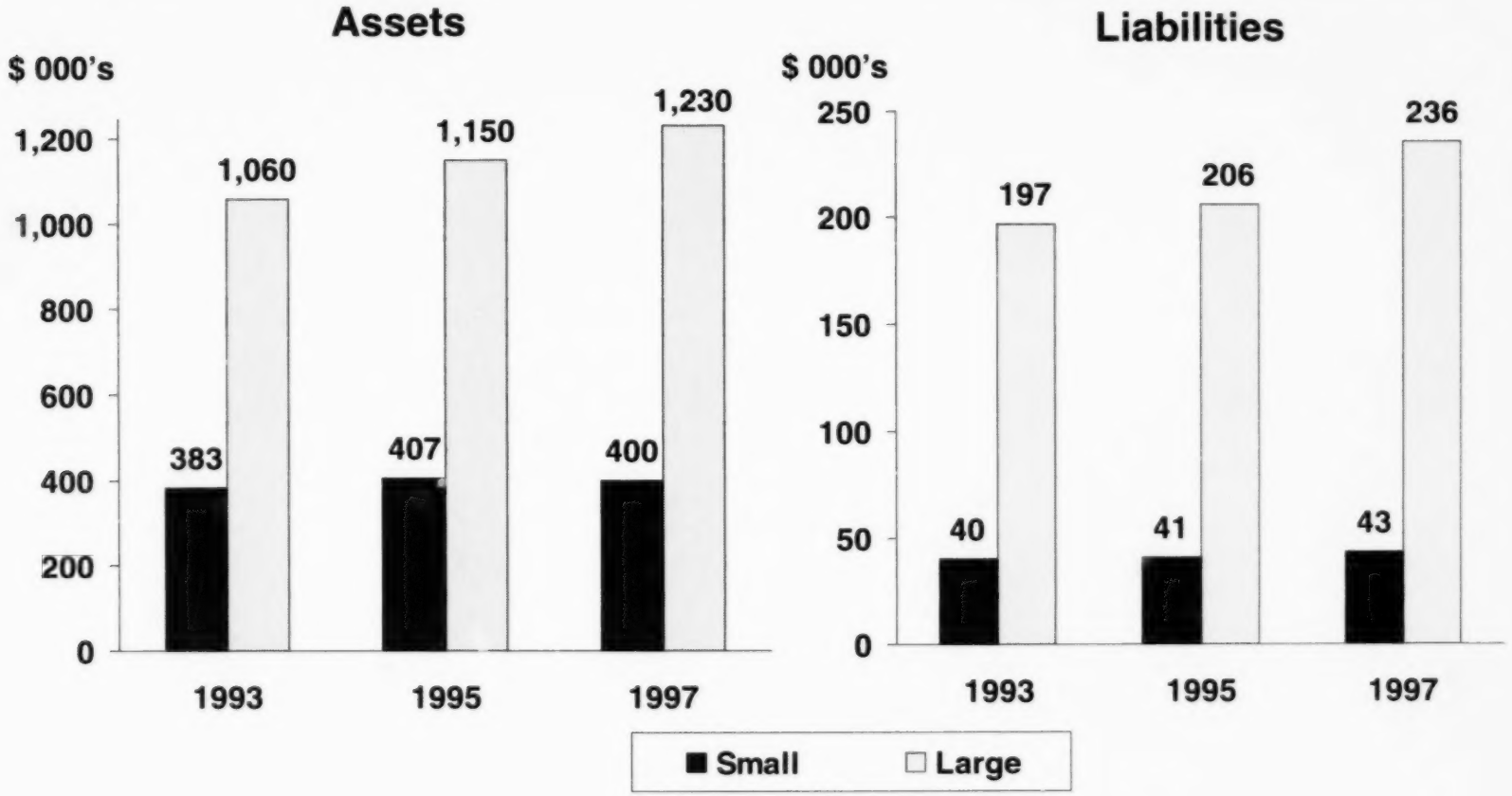
*1985 data are adjusted for inflation by using 1995 constant dollars

Source: Survey of Consumer Finances

- Average farm family income was lower than urban non-farm family income in both 1985 and 1995, but above that of rural non-farm families in both years.
- Although farm family incomes have been lower than urban non-farm family incomes, the cost of living in rural areas can be significantly lower.
- Between 1985 and 1995, farm family real incomes increased almost 12%, substantially more than the increase for urban (4%) and rural (3%) non-farm families.

Other Farm Financial Indicators

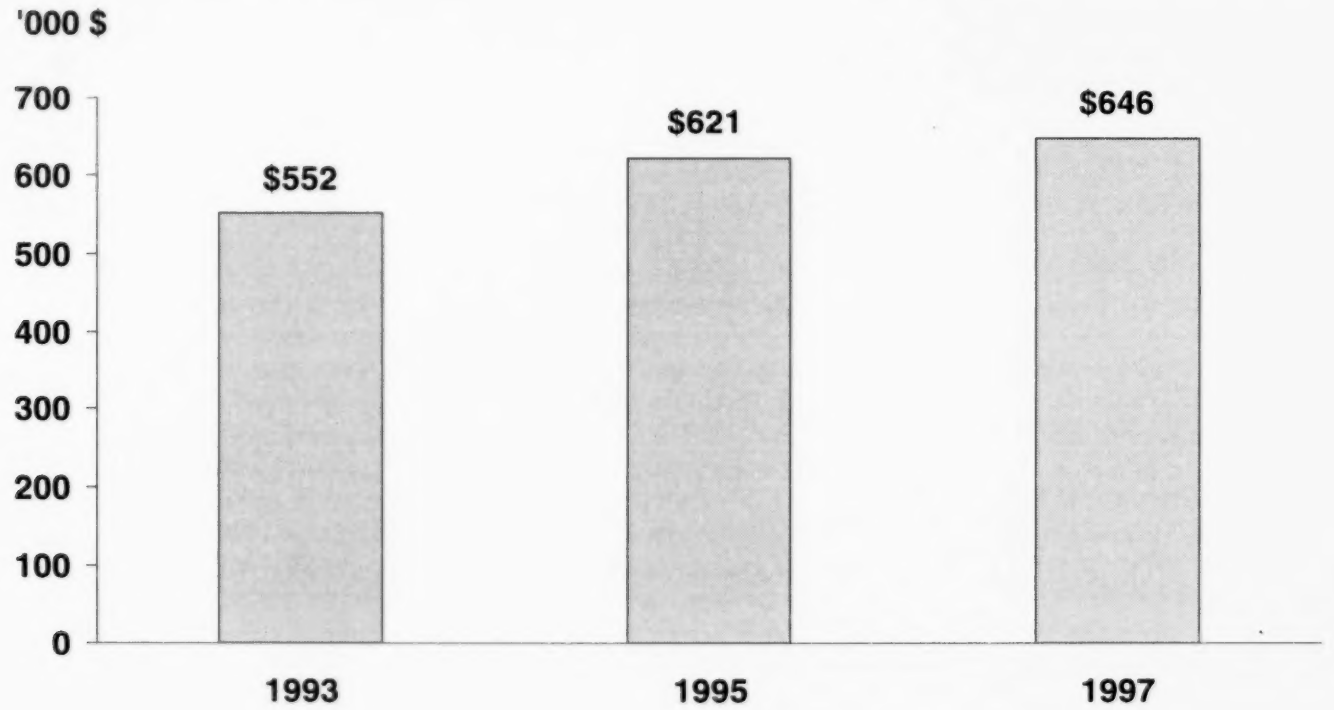
Average Assets and Liabilities per Farm for Small and Large Farms in Canada, 1993, 1995, 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys

- Average farm assets grew between 1993 and 1997 for large farms (greater than $100,000 in revenues), while small farms (less than $100,000 in revenues) increased slightly.
- Average liabilities increased between 1993 and 1997 for both small and large farms.
- Debt-asset ratios remained unchanged for both large (0.19) and small (0.10) farms between 1993 and 1997.

Average Net Worth per Farm, Canada, 1993, 1995, 1997

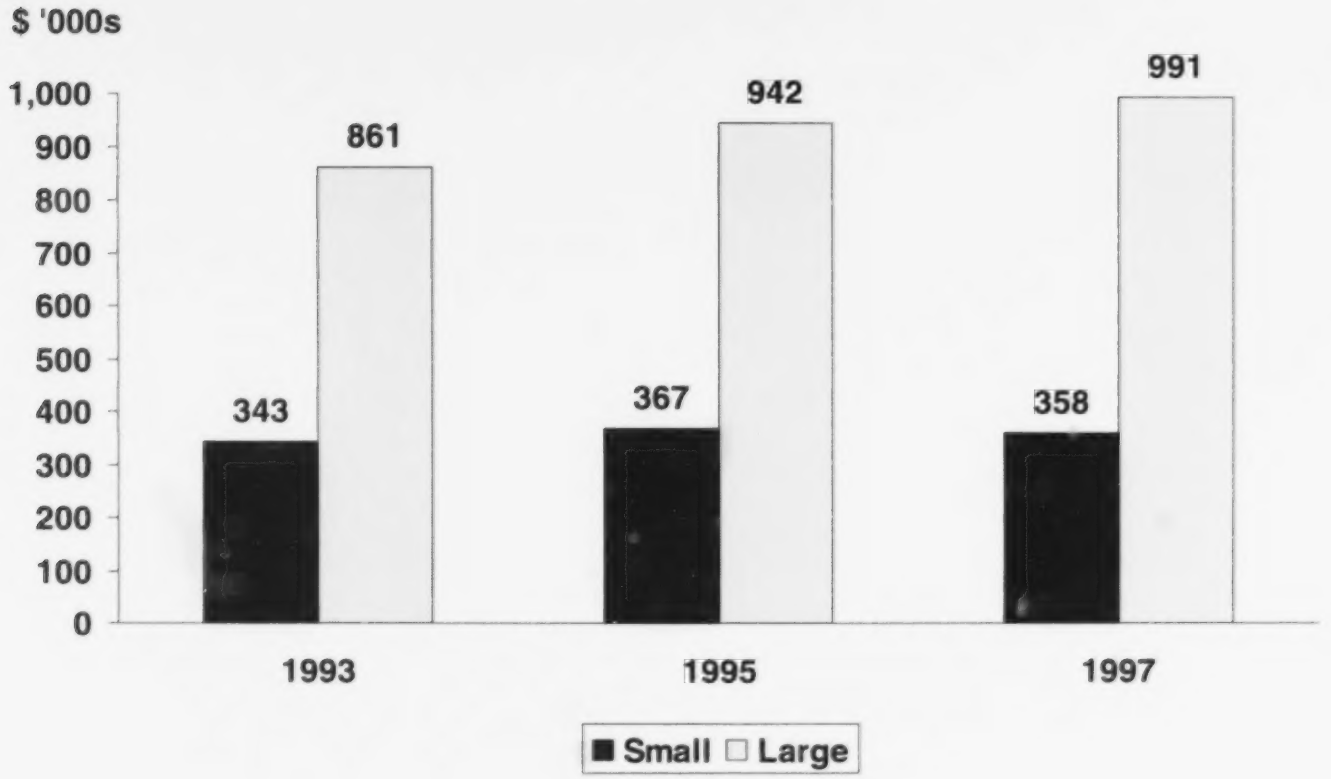


Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Net worth equals total farm assets minus total farm liabilities.

- Average farm net worth increased by 17% from 1993 to 1997, and currently exceeds $646,000.

Average Net Worth per Farm for Small and Large Farms in Canada, 1993, 1995, 1997

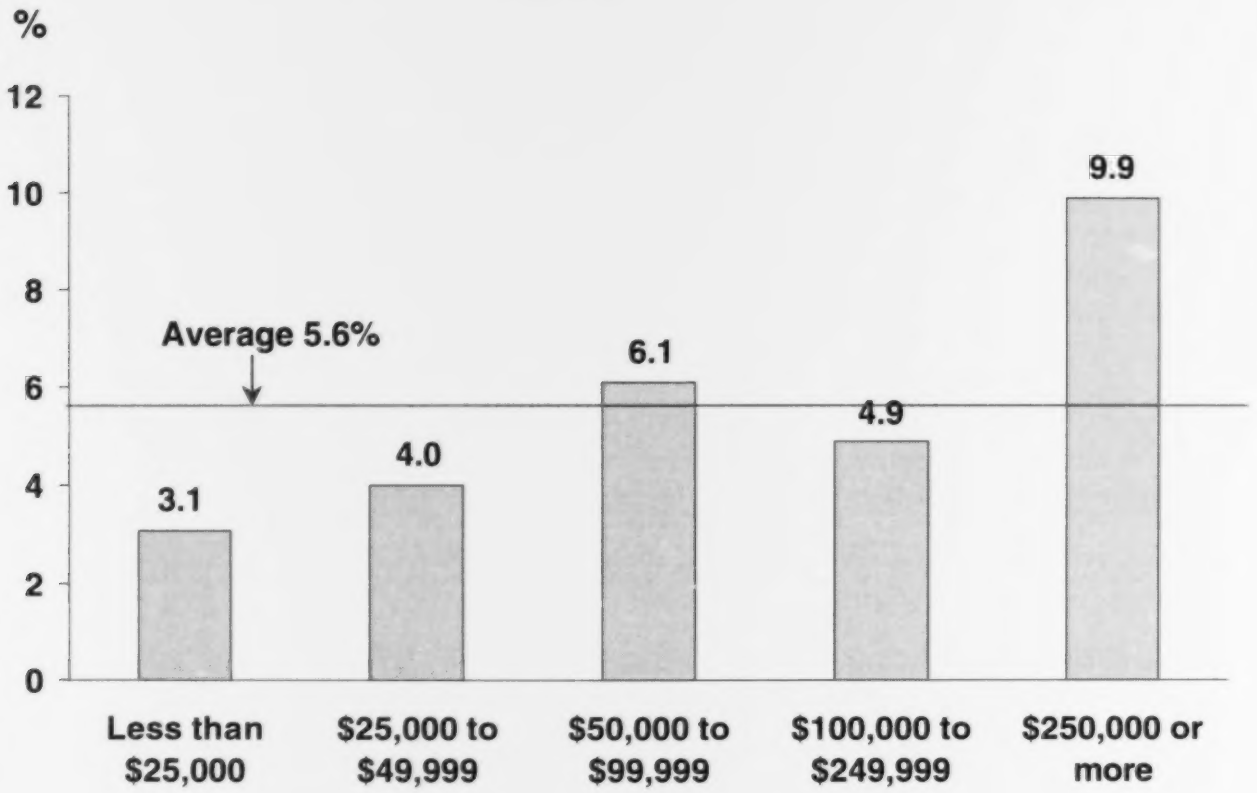


Source: Agriculture and Agri-Food Canada, Farm Financial Surveys

- Despite a decrease for small farms from 1995 to 1997, the average net worth of Canadian farms rose between 1993 and 1997 to $357,604 for small farms and $991,207 for large farms.

- From 1993 to 1997, net worth rose 15% for large farms compared to only 4% for small farms.

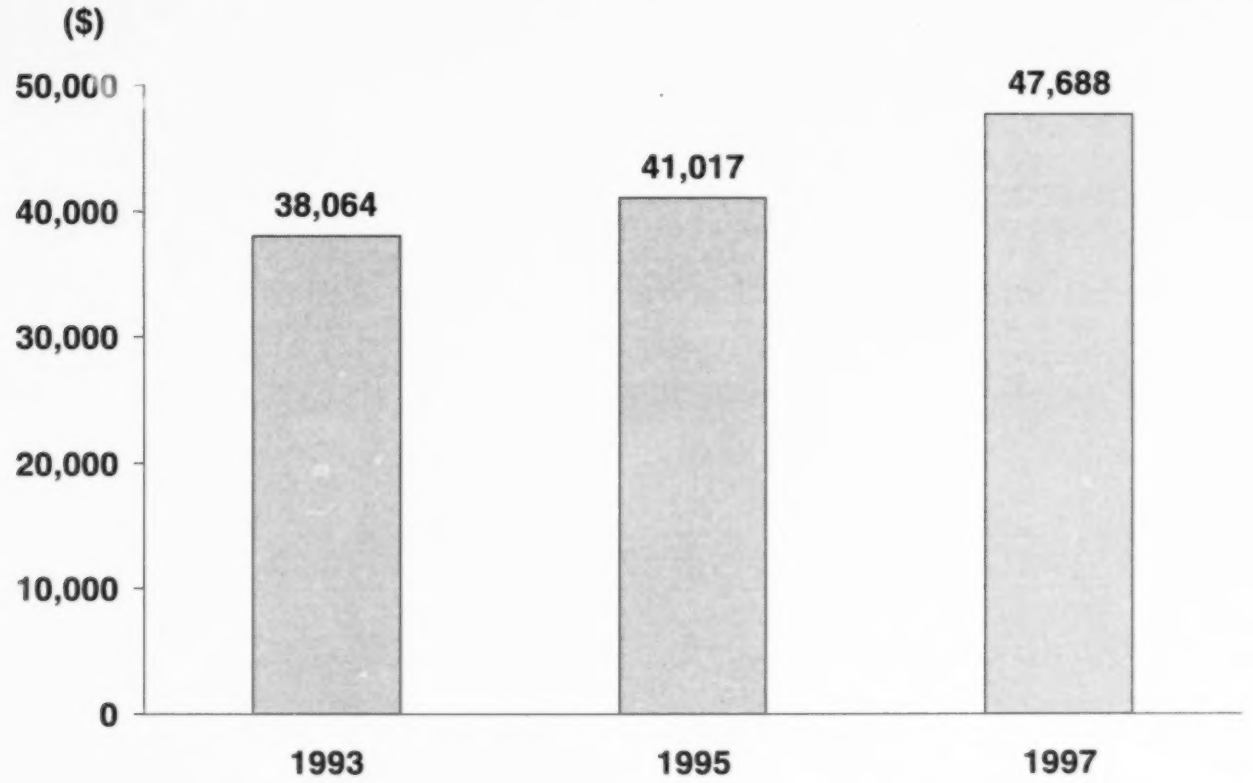
Percentage of Farms with High Debt by Revenue Class, 1997



Source: Agriculture and Agri-Food Canada, 1996 Farm Financial Survey

- High debt refers to farms with a debt/asset ratio of greater than 0.5.
- Only a small percent of small and medium-sized farms have high debt.
- Even amongst the largest farms (revenues greater than $250,000), relatively few have high debt (9.9%).

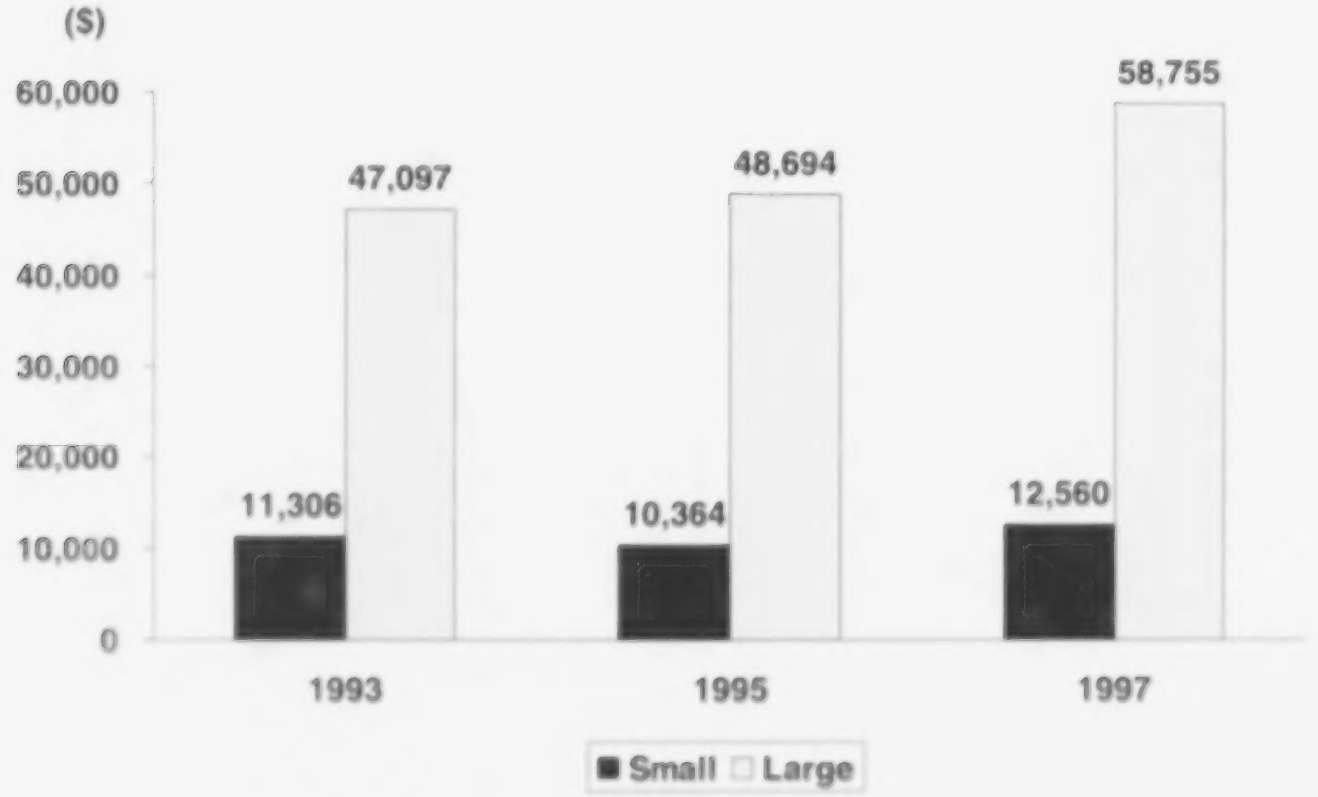
Gross Capital Investment per Farm
1993, 1995, 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys

- Gross capital investment, which refers to capital investments before capital sales, was up 16% in 1997 compared to 1995. Investment in 1997 was up considerably (25%) compared to the 1993 level.
- Investment in farm machinery and equipment, which was the most significant investment in all years, accounted for 50% of all investments in 1997.
- Capital borrowed for long term loans exceeded $23,000 per farm in 1997.

Average Net Capital Investment per Farm for Small and Large Farms, 1993, 1995, 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Between 1993 and 1997, net investment, which is gross investment less capital sales, grew by 24.7% for large farms (greater than $100,000 in revenues) and 11% for small ones (less than $100,000 in revenues).
- The average net capital investment in 1997 was $12,560 for small farms and $58,755 for large farms.
- For small farms, net investment fell over the 1993 to 1995 period.

Current Assets of Canadian Farms

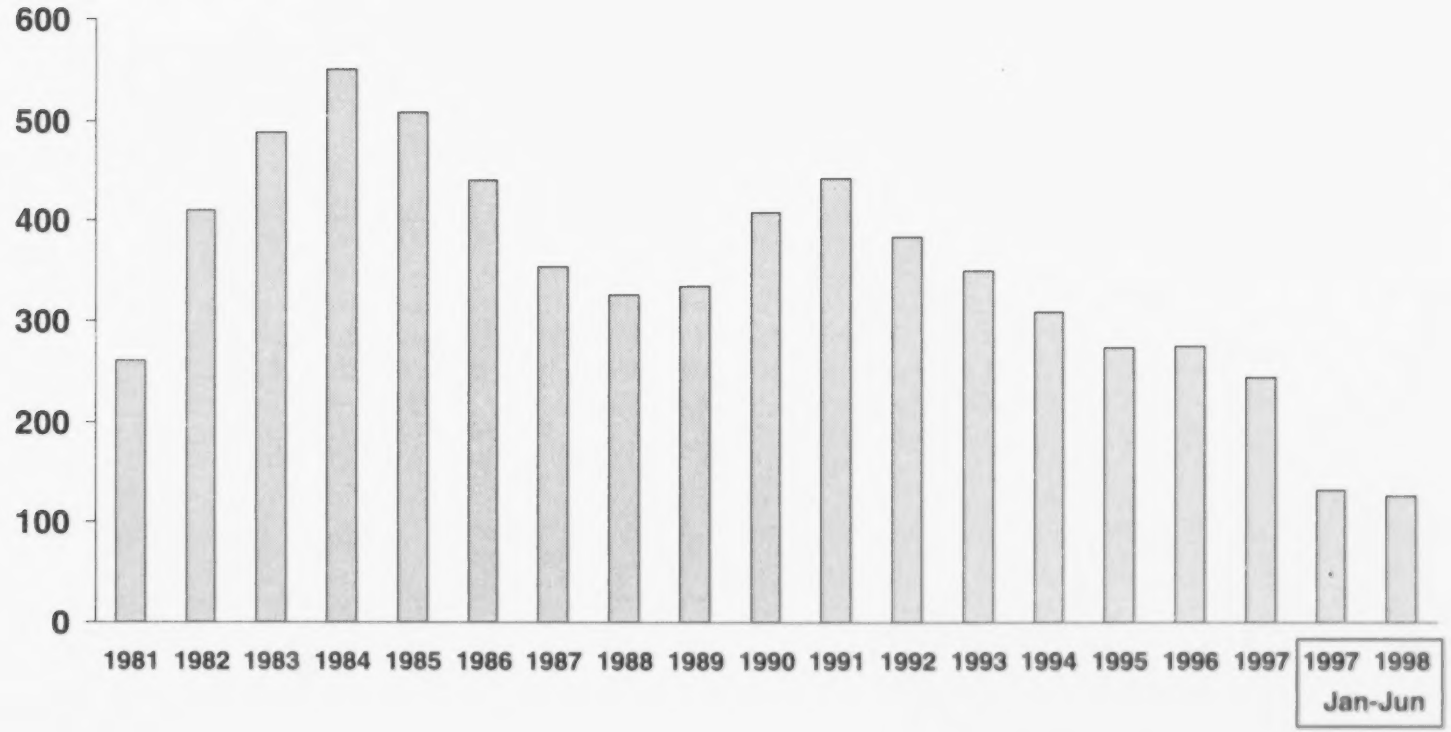
as of December 31, 1997

Current Assets	Total	Average
	Million $	($)
Market Livestock	5,454	29,828
Accounts Receivable	1,491	8,154
Inputs	2,604	14,241
Crop for Sale	5,657	30,938
Cash and Short-Term Investments	1,101	6,021
Other Current Assets	289	1,581
TOTAL	**16,597**	**90,768**

Source: 1998 Farm Financial Survey.

- Canadian farms had over $16 billion in current assets in 1997.
- The average farm had over $90,700 in current assets of which over $6,000 was in cash and short-term investments.

Number of Farm Bankruptcies in Canada, 1981-1997



Source: Office of the Superintendent of Bankruptcy

- Farm bankruptcies have been trending downward since 1991.
- Farm bankruptcies are expected to remain low in 1998. This reflects low interest rates, low debt levels and favourable commodity prices in recent years.
- From January to June in 1998, 126 farm bankruptcies were recorded compared to 131 for the same period in 1997.

NISA Fund Balances, by Province

as of mid-October, 1998

Province	Million $
Newfoundland	0.9
Prince Edward Island	29
Nova Scotia	12
New Brunswick	11
Quebec	23
Ontario	504
Manitoba	337
Saskatchewan	1,028
Alberta	468
British Columbia	53
Canada	2,465

NISA (Net Income Stabilization Account).

- In total, farm operators had $2.46 billion in NISA accounts in mid-October, 1998.

NISA Participants and Balances

as of early October, 1998[1]

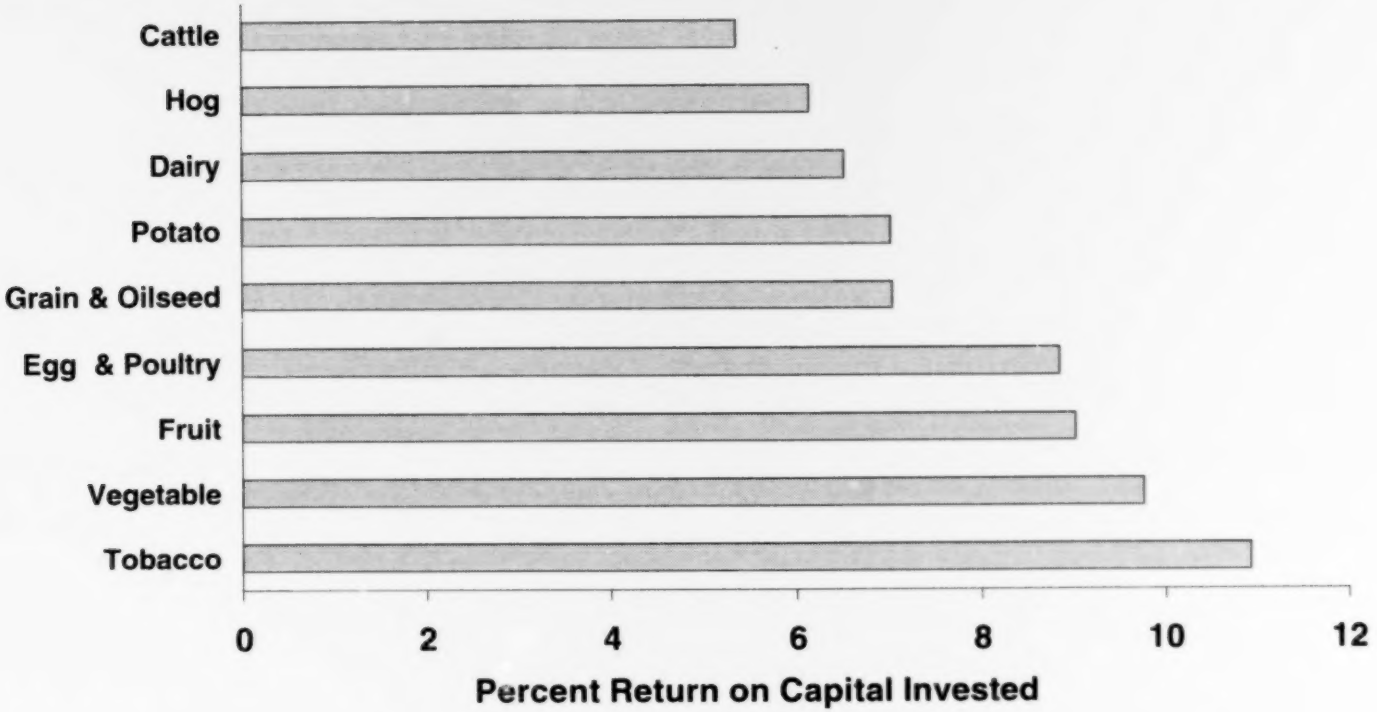
Sales Class	Number of Participants[2]	Average Account Balances
$0 to $49,999	60,799	$5,727
$50,000 to $99,999	31,665	$12,879
$100,000 to $249,999	33,799	$23,766
$250,000 to $499,999	9,844	$40,744
$500,000 or more	4,910	$83,934
TOTAL[3]	**143,738**	**$16,614**

1. These data change daily, as new participants join NISA, deposits are made, withdrawals are taken, etc.
2. For larger farms, there can be more than one participant per farm.
3. Includes some unallocated accounts.

- In mid-October 1998, there were 143,738 participants in NISA with the average account balance being $16,614.

- NISA account balances are proportionate to farm size; that is, small farms tend to have small account balances while larger farms have proportionately larger account balances.

Average Return on Investment per Farm in Agriculture by Farm Type (1992-1995)



Source: Statistics Canada, Agriculture Division, Whole Farm Database

- These figures are derived from a sample of income tax records, for incorporated farms only, with revenues of $50,000 or more per year.

- Agriculture generated an average return to capital investment of almost 7% between 1992 and 1995.

- The most profitable farm type over the four years was tobacco with a rate of return of almost 11%. At the other end of the scale, cattle farms had a rate of return of just under 6%. Rates of return for hog and dairy farms were slightly larger than for cattle farms.

In brief....

Farm Income

- On a national level, farm income reached near record levels in 1997.
- In 1998, farm income is expected to be four percent below the previous five-year average.
- Farmers in Manitoba and Saskatchewan are expected to be most severely affected, with farm income down over 40 percent in Manitoba and almost 70 percent in Saskatchewan, relative to the previous five-year average.
- Farm income in PEI is also expected to be down 40 percent from the previous five-year average, but up 300 percent from 1997.
- Income in 1998 is expected to be above the previous five-year average in all other provinces.
- Low prices and declining income are expected to continue into 1999.

Farm Family Income

- Farm family incomes continue to increase, and at a more rapid rate than either urban or rural non-farm family incomes. In 1998 farm family income is estimated at $56,298.
- Small farms represent two-thirds of farm families in Canada, but earned relatively little of their income (just 10%) from farming.
- Large farms (with sales of $100,000 or more) have much higher farm family income, approximately 55% of which comes from farming.

Other Farm Financial Indicators

- Both farm assets and liabilities continue to increase; debt-asset ratios remain unchanged for both large (0.19) and small (0.10) farms.
- Average farm net worth continues to increase, and currently exceeds $640,000; the net worth of large farms approaches $1 million.
- Currently, Canadian farmers have saved $2.5 billion in their NISA accounts.
- In Manitoba, farmers have $337 million in their NISA accounts, Saskatchewan farmers have over $1 billion and in PEI there is $29 million in producers' accounts.

Prepared by
Jack Gellner/Ken Ash
Economic and Policy Analysis Directorate
Agriculture and Agri-Food Canada
930 Carling Avenue
Ottawa, Ontario
K1A 0C5
www.agr.ca/policy/epad

November 1998